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FISCAL IMPACT STATEMENT

LS 7033
BILL NUMBER: HB 1194

NOTE PREPARED: Jan 2, 2012
BILL AMENDED:

SUBJECT: Assessment of outdoor advertising signs.

FIRST AUTHOR: Rep. Smith M
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill establishes a schedule for the determination of the true tax value of outdoor advertising signs. The bill requires the Department of Local Government Finance (DLGF) to revise the schedule of values every five years.

Effective Date: March 1, 2010 (retroactive).

Explanation of State Expenditures: This bill would require the DLGF to update the valuation schedule for outdoor advertising signs every 5 years beginning with the March 1, 2015 assessment date. The DLGF would have minimal additional costs once every 5 years under this provision.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Prior to the 2011 Pay 2012 assessment year, outdoor advertising signs were assessed under a DLGF rule that set the value of each sign based on the type, size, and number of faces on the sign. The DLGF repealed that rule effective with the March 1, 2011, assessment date.

Outdoor advertising signs are now valued in the same manner as most other depreciable personal property by listing the cost of the signs in the depreciation schedule in the personal property tax return. The cost to purchase an existing outdoor sign can vary greatly depending on location. In many cases the value under the current method is higher than under the previous rule.

This bill would establish an initial valuation schedule that would be used for taxes payable from CY 2011 through CY 2015. The DLGF would update the schedule every 5 years beginning with taxes payable in CY 2016. The new schedule would set the unit value per structure based on the type and size, but not the number of faces, of each sign. This value would used in lieu of the value arrived at by using the depreciation schedule in the personal property tax return.

For purposes of this analysis, it was assumed that there is an average of 1.5 faces on outdoor advertising signs in Indiana. In comparing the estimated assessed value for signs under this proposal with the estimated value under the previous rule, the values for single pole signs would be 75% to 100% higher, on average with a range of 39% to 176%.

For taxes payable in 2011 (under the previous rule), $7.7 M in assessed value was reported statewide by taxpayers who self-reported their principal business activity as display advertising. The tax due is estimated at $195,000. For taxes payable in 2012 (without a rule or schedule), $22.2 M in assessed value was reported and the estimated tax due is $602,000. So, with no special rule in place, the tax due is estimated to be 209% higher than it was under the old rule.

The total AV and taxes attributable to outdoor advertising signs is not known. The property tax returns for the taxpayers identified above may also contain property other than outdoor advertising signs, so the above estimates for these taxpayers may be high. However, the full universe of outdoor advertising signs is not known. If a sign owner listed any other activity as their principal business activity, then the value of their signs would not be included in the estimates above. It is very likely that there are many outdoor advertising signs that are reported on property tax returns other than those identified here.

The valuation schedule contained in this bill would most likely result in a total sign valuation that is somewhere between the valuation under the previous rule and the valuation under current law (without a rule or schedule). The change in valuation by taxpayer and location would vary. Compared with current law, lower overall assessments would increase property tax rates and could result in an increase in circuit breaker losses for local civil taxing units and school corporations.

The bill would permit sign owners to file amended personal property tax returns by October 14, 2012, for taxes payable in CY 2011 and CY 2012 to reflect the valuation schedule contained in this bill. It is unlikely that any taxpayers would file amended returns for taxes payable in CY 2011 because the old rule was still in effect and the new values would likely be higher than the old values.

Some taxpayers might, however, file amended returns for taxes payable in CY 2012. Taxpayers whose assessed values are reduced would be entitled to a refund with interest at 4% per annum. Property tax refunds reduce current year tax collections for local civil taxing units and school corporations.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Local assessors; County auditors; County treasurers; Local civil taxing units and school corporations.

Information Sources: LSA Property Tax Databases.

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